

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT POLICY**

**FOR  
SUPPLEMENTAL INCOME PLANS**

**~~October 12, 2007~~ December 17, 2007**

*This policy is effective immediately upon adoption and supersedes all previous Supplemental Income Plans policies, if any.*

**I. PURPOSE**

This document sets forth the investment policy ("Policy") for the California Public Employees' Retirement System ("CalPERS") Supplemental Income Plans (SIP) and guidelines for the business needs and legal requirements applicable to the SIP program. The Policy provides criteria against which results will be measured, and serves as a review document to guide ongoing operations and oversight. The Policy is also intended to ensure the Committee is fulfilling its fiduciary responsibilities in the management of the SIP.

The Committee intends this Policy to be a dynamic document and will review it from time to time. The Policy will be modified periodically to reflect the changing nature of the SIP. In addition, the Committee has delegated to the CalPERS Staff certain authority that pertains to the ongoing management and administration of the SIP.

All of CalPERS' SIP investment activities are designed and executed in order to serve the best interests of the participants and beneficiaries of SIP. All transactions will be for the sole economic benefit of CalPERS' SIP participants and beneficiaries and for the sole purpose of providing benefits to them.

The design of this Policy ensures that investors, managers, consultants, and other ~~entities~~ participants selected by CalPERS take prudent and careful action while administering and managing the SIP. The SIP provides participants an efficient and convenient method of setting aside and accumulating supplemental retirement savings over their period of employment. CalPERS administers various supplemental deferred compensation and defined contribution plans for employees at participating public agencies, schools and the State of California.<sup>1</sup> The SIP overall investment plan and the available individual investment options will be designed to help participants achieve their long-term retirement income goals by providing a diversified range of alternatives. Since SIP participants'

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<sup>1</sup> As of October 12, 2007, the SIP Division administers the CalPERS 457 Deferred Compensation Plan (the "457 Plan"), the Supplemental Contributions Program (the "SCP"), and the State Peace Officers' and Firefighters' Defined Contribution Plan (the "POFF").

needs represent a wide range of investment time horizons, risk tolerances and return expectations, an appropriate range of investment options will be available.

## II. STRATEGIC OBJECTIVE

The investment options offered in the CalPERS SIP will be broadly diversified to minimize the effect of short-term losses within any mix of investments self-directed by participants. The SIP objective is to provide participants with supplemental income during retirement. The CalPERS SIP will accomplish this objective by:

- A. Educating participants and providing information to allow them to make informed decisions about their need to supplement retirement income.
- B. Providing appropriate asset allocation funds as default investment options.
- C. Offering a variety of high quality investment options based on age, risk tolerance and specific retirement income goals and objectives, so participants may construct well-diversified portfolios should they not choose the default funds.

## III. RESPONSIBILITIES

- A. **CalPERS Investment Staff** ("Staff") is responsible for the following:
  - 1. All aspects of SIP administration, including selecting and monitoring a Third-party Administrator, as well as monitoring, analyzing, and evaluating performance of each fund relative to an appropriate benchmark;
  - 2. Establishing the fund line-up using internally and externally managed funds, including the default fund offerings;
  - 3. Creating internally managed portfolios as fund offerings;
  - 4. Identifying opportunities and making recommendations to the Committee consistent with pertinent delegations;
  - 5. Setting, adjusting, or modifying the fees and premiums paid by participating employers and plan participants as deemed necessary, advisable or appropriate to meet administrative needs of the plan(s);
  - 6. Reporting to the Committee at least annually on the performance of the SIP; and

7. Monitoring implementation of, and compliance with, the Policy.
- B. **Third-party Plan Administrator** is responsible for:
1. Recordkeeping, marketing, and processing transactions;
  2. Receiving payroll contributions, rollovers and transfers from other retirement plans; and
  3. Processing distributions.
- C. **Internal and External Manager(s) (“Manager(s)”)** are responsible for all aspects of portfolio management as set forth in their respective investment management contracts, guidelines or policies and shall fulfill the following duties:
1. Communicate with Staff as needed regarding investment strategy and investment results. The Manager(s) are expected to manage to the objectives of each fund and monitor, analyze, and evaluate performance relative to the agreed upon benchmark; and
  2. Cooperate fully when Staff, SIP’s custodian, the Third Party Administrator and the consultant request information.
- D. **SIP Participants** may, if authorized by the applicable plan, choose to self-direct their investments, rather than accepting the default investment option. Individual accounts are established for each participant and allow the participants to exercise control over the assets in their accounts. In addition, participants have the independence and authority to select those investment options they deem suitable to meet their retirement income goals and investment objectives.
- E. The **Independent Investment Consultant** is responsible for monitoring, evaluating, and reporting to the Investment Committee, at least quarterly, about the internally and externally managed fund performance relative to the benchmarks and Policy guidelines.

#### IV. PERFORMANCE OBJECTIVE AND BENCHMARK

The performance of each individual investment fund within the SIP will be evaluated against its appropriate asset class benchmark. The objective is for SIP funds to outperform the appropriate benchmark and perform above the universe median.

## V. APPROACH

- A. SIP will offer default asset allocation funds to provide participants appropriate diversified funds providing a mix of investments allocated among different investment classes in pre-established proportions suited to specific investors' time horizons.
- B. The core fund line-up of investments will be specifically designed and managed to offer funds that allow for appropriate growth of participants' assets in light of the risk taken. This approach results in a compact line-up of institutionally managed, core investment options that span the risk-return spectrum, but avoid duplication, allowing participants to diversify among investment asset classes.

## VI. CALCULATIONS AND COMPUTATIONS

The Third Party Administrator, Managers, investors, consultants, and other ~~entities~~ participants selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS' custodian.

## VII. GLOSSARY OF TERMS

Key words used in this policy are defined in CalPERS' Master Glossary of Terms.  
~~There are no master glossary terms contained in this policy.~~

Approved by the Policy Subcommittee: October 12, 2007

Adopted by the Investment Committee: December 17, 2007

Glossary: Other (Non-PERF) Investment Portfolios  
Policy: Supplemental Income Plans  
December 17, 2007

**Participant**

A person that takes part in, or contributes to, one of the CalPERS Supplemental Income Plans